中國光纖網絡系統集團有限公司

CHINA FIBER OPTIC NETWORK SYSTEM GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3777)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2016

FINANCIAL HIGHLIGHTS

For the six months ended June 30, 2016 (the "Period"), the operating results of the Group were as follows:

— Revenue amounted to Renminbi ("RMB") 774,938,000, a decrease of 12.5% from the six months ended June 30, 2015 (the "Last Corresponding Period");

— Gross profit margin decreased to 25.1% as compared to 30.1% of the Last Corresponding Period;

— Profit for the Period amounted to RMB80,879,000, a decrease of 45.5% over the Last Corresponding Period;

— Net cash flows generated from operating activities increased by 173.6% to RMB250,038,000 as compared to RMB91,380,000 of the Last Corresponding Period;

— Basic and diluted earnings per share decreased by 45.7% and 52.2% to RMB3.8 cents and RMB3.3 cents, respectively; and

— No interim dividend was declared.

The board of directors (the "Board") of China Fiber Optic Network System Group Ltd. (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended June 30, 2016 (the "Period") together with the relevant comparative figures as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2016

		For the six months ended June 30,	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*3*	**774,938**	885,378
Cost of sales		**(580,347)**	(618,735)
Gross profit		**194,591**	266,643
Other income	*4*	**13,675**	14,373
Selling and distribution expenses		**(5,161)**	(13,070)
Administrative expenses		**(65,594)**	(61,631)
Other expenses		**(1,196)**	(1,565)
Finance costs	*5*	**(29,784)**	(21,116)
PROFIT BEFORE TAX	*5*	**106,531**	183,634
Income tax expense	*6*	**(25,652)**	(35,338)
PROFIT FOR THE PERIOD		**80,879**	148,296
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Foreign currency translation		**17,283**	(760)
Total comprehensive income for the period attributable to owners of the Company		**98,162**	147,536
Earnings per share attributable to ordinary equity holders of the Company:			(Restated)
Basic	*7*	**RMB0.038**	RMB0.070
Diluted	*7*	**RMB0.033**	RMB0.069

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at June 30, 2016

	Notes	June 30, 2016 RMB'000 (Unaudited)	December 31, 2015 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	**2,583,825**	2,461,274
Prepaid land lease payments	8	**23,282**	23,591
Payments in advance		**4,677**	11,026
Goodwill		**15,563**	15,563
Available-for-sale investment		**14,300**	14,300
Deferred tax assets		**3,203**	2,361
Total non-current assets		**2,644,850**	2,528,115
CURRENT ASSETS			
Inventories		**159,024**	74,879
Trade and notes receivables	9	**2,578,045**	2,655,519
Prepayments, deposits and other receivables	10	**328,683**	400,639
Pledged bank balances	11	**457,732**	490,967
Time deposits	11	**53,498**	4,520
Cash and cash equivalents	11	**332,766**	364,222
Total current assets		**3,909,748**	3,990,746
CURRENT LIABILITIES			
Trade and notes payables	12	**786,846**	782,919
Other payables and accruals	13	**951,574**	936,871
Tax payable		**247,421**	238,462
Interest-bearing bank loans	14	**950,256**	956,342
Obligations under finance leases		**24,907**	16,925
Total current liabilities		**2,961,004**	2,931,519
NET CURRENT ASSETS		**948,744**	1,059,227
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,593,594**	3,587,342

	Notes	**June 30, 2016** *RMB'000* **(Unaudited)**	December 31, 2015 *RMB'000* (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	*14*	**15,685**	261,283
Obligations under finance leases		**28,587**	28,214
Deferred income		**12,900**	14,433
Deferred tax liabilities		**33,380**	31,146
Convertible bonds	*15*	**133,031**	–
Total non-current liabilities		**223,583**	335,076
Net assets		**3,370,011**	3,252,266
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*16*	**13,599**	13,599
Reserves		**3,356,412**	3,238,667
Total equity		**3,370,011**	3,252,266

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the period ended June 30, 2016

1. CORPORATE INFORMATION

China Fiber Optic Network System Group Ltd. (the "Company") is a limited liability company incorporated in the Cayman Islands on August 7, 2006 under the Companies Law of the Cayman Islands. The registered office address of the Company is Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, Cayman Islands. The Company's principal place of business in Hong Kong is located at Office Suite 2001–02, 20th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong and will be moved to Room 1511, 15th Floor, New World Tower 1, 16-18 Queen's Road Central, Hong Kong with effect from September 2, 2016.

During the Period, the Company acted as an investment company and its subsidiaries were principally engaged in the production and sale of fiber optic patch cords and other accessories. There were no significant changes in the nature of the principal activities of the Group during the Period.

In the opinion of the directors of the Company (the "Directors"), the holding company and the ultimate holding company of the Company is Kemy Holding, Inc. ("Kemy"), which is incorporated in the Cayman Islands.

2.1 BASIS OF PREPARATION

The unaudited interim condensed financial information for the Period has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

The unaudited interim condensed financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2015.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this interim condensed financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2015, except for the adoption of amendments to a number of International Financial Reporting Standards issued by the International Accounting Standards Board that are mandatory for the first time for the financial year beginning January 1, 2016. The adoption of these amendments has had no significant financial effect on the financial position or performance of the Group.

3. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue, which is the Group's turnover, represents the net invoiced value of goods sold, net of various types of government surcharges.

The Group's revenue and contribution to profit are mainly derived from the manufacture and sale of fiber optic patch cords and other accessories, which is regarded as a single reportable operating segment in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for purposes of resources allocation and performance assessment. Accordingly, no segment analysis is presented other than entity-wide disclosures.

Entity-wide disclosures

Information about products

The following table sets forth the total revenue from external customers by product and the percentage of total revenue by product during the Period:

	For the six months ended June 30,			
	2016		2015	
	RMB'000	*%*	*RMB'000*	*%*
	(Unaudited)		(Unaudited)	
Fiber optic patch cords	**298,227**	**38.5**	614,896	69.4
Connection and distribution product series	**337,761**	**43.6**	229,979	26.0
Equipment room accessories	**138,950**	**17.9**	40,503	4.6
	774,938	**100.0**	885,378	100.0

Geographical information

The following table sets out information about the geographical locations of the Group's revenue from external customers during the Period. The geographical locations of customers are determined based on the locations at which the goods were delivered.

	For the six months ended June 30,	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Domestic*:		
— the Peoples' Republic of China (the "PRC")	**689,248**	783,989
Overseas:		
— New Zealand	**41,750**	41,469
— Australia	**16,258**	28,668
— United Kingdom	**27,653**	31,252
— Others	**29**	–
	85,690	101,389
	774,938	885,378

* Place of domicile of the Group's principal subsidiary, Hebei Sifang Telecommunication Equipment Co., Ltd. ("Sifang Telecom").

At the end of the reporting period, except for certain fixed assets in Canada and a property in Hong Kong, all of the Group's non-current assets were located in the PRC.

Information about major customers

Revenue from a major customer, which accounted for 10% or more of the Group's revenue during the Period, is set out below:

	For the six months ended June 30,	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Customer A*	**–**	187,783
Customer B	**176,845**	–
Customer C	**128,965**	–
Customer D	**104,399**	–

* No information on turnover for the current period is disclosed for this customer since it contributed less than 10% to the Group's turnover for the Period.

4. OTHER INCOME

An analysis of the Group's other income during the Period is as follows:

	For the six months ended June 30,	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Government grants*	**2,226**	855
Deferred income released	**1,533**	412
Interest income	**7,563**	12,291
Rental income	**608**	748
Others	**1,745**	67
Total other income	**13,675**	14,373

* There are no unfulfilled conditions or contingencies relating to these grants.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

		For the six months ended June 30,	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Cost of inventories sold		**580,347**	618,735
Employee benefit expense (including Directors' remuneration):			
Wages and salaries		**18,693**	26,813
Equity-settled share option expense		**11,611**	2,911
Pension scheme contributions			
— Defined contribution fund		**2,379**	2,950
Housing fund			
— Defined contribution fund		**586**	727
Total employee benefit expense		**33,269**	33,401
Interest on bank loans		**26,205**	21,116
Interest on finance leases		**1,335**	–
Interest on convertible bonds		**2,244**	–
Finance costs		**29,784**	21,116
Auditors' remuneration		**860**	1,200
Depreciation of items of property, plant and equipment	*8*	**52,184**	48,641
Amortisation of prepaid land lease payments	*8*	**309**	309
Operating lease rental in respect of buildings		**1,283**	2,839
Loss on disposal and write-off of items of property, plant and equipment		**1,525**	79
Research and development costs		**4,792**	13,689

6. INCOME TAX

The major components of the income tax expense for the Period are as follows:

	For the six months ended June 30,	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current — the PRC		
Charge for the period	**22,808**	33,949
Deferred	**2,844**	1,389
Total tax charge for the period	**25,652**	35,338

Notes:

(a) Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

(b) No provision for Hong Kong profits tax has been made as the Group had no taxable profits derived from or earned in Hong Kong during the Period.

(c) No provision for Canadian profits tax has been made as the Group had no taxable profits derived from or earned in Canada during the Period.

(d) Except for Sifang Telecom which is entitled to a preferential corporate income tax ("CIT") rate of 15% (six months ended June 30, 2015: 15%), other PRC subsidiaries are subject to the PRC CIT rate at 25% (six months ended June 30, 2015: 25%) during the Period.

In 2014, Sifang Telecom has renewed the high and new technology enterprise certificate and is entitled to a preferential CIT rate of 15% for three years commencing from January 1, 2014.

Pursuant to the income tax rules and regulations of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from foreign investment enterprises established in the PRC effective from January 1, 2008.

Pursuant to the resolution of the board of directors of Sifang Telecom dated July 11, 2016, Sifang Telecom will distribute dividends of not more than 25% of Sifang Telecom's distributable profit (after appropriation to the statutory reserve fund) in respect of the Period to the Company and the remaining distributable profit will be used for the business development of Sifang Telecom and will not be distributed to the Company. Therefore, a deferred tax liability of RMB2,233,000 (June 30, 2015: RMB3,030,000), representing 10% withholding tax on 25% of Sifang Telecom's distributable profit, has been provided for during the Period.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,760,672,000 (six months ended June 30, 2015 (Restated): 2,118,087,000 in issue adjusted with bonus issue in 2015) in issue during the Period.

The calculation of the diluted earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the Period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended June 30,	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**80,879**	148,296
Interest on convertible bonds	**2,244**	–
Profit attributable to ordinary equity holders of the Company used in the diluted earnings per share calculation	**83,123**	148,296

	For the six months ended June 30,	
	2016	2015
	'000	*'000*
	(Unaudited)	(Unaudited)
		(Restated)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**2,144,491**	2,118,087
Effect of dilution — weighted average number of ordinary shares:		
Share options	**–**	29,165
Convertible bonds	**357,400**	–
	2,501,891	2,147,252

8. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND LEASE PAYMENTS

Movements in property, plant and equipment and prepaid land lease payments during the Period are as follows:

	Property, plant and equipment	**Prepaid land lease payments**
	RMB'000	***RMB'000***
	(note (a))	***(note (b))***
Carrying amount at January 1, 2016	**2,461,274**	**23,591**
Additions	**180,468**	**–**
Disposals	**(5,733)**	**–**
Depreciation/amortization charged for the Period *(note 5)*	**(52,184)**	**(309)**
Carrying amount at June 30, 2016 (unaudited)	**2,583,825**	**23,282**

Notes:

(a) At the end of the reporting period, certain of the Group's property, plant and equipment with an aggregate carrying amount of RMB189,608,000 and RMB41,022,000 (December 31, 2015: RMB253,290,000 and RMB41,979,000) had been pledged to secure the Group's interest-bearing bank loans (note 14) and obligation under finance leases respectively.

(b) As at June 30, 2016, prepaid land lease payments with a net book amount of RMB17,757,000 (December 31, 2015: RMB24,210,000) had been pledged to banks for bank loans granted to the Group (note 14).

9. TRADE AND NOTES RECEIVABLES

	June 30, 2016 *RMB'000* **(Unaudited)**	December 31, 2015 *RMB'000* (Audited)
Trade receivables		
— billed	**772,342**	513,274
— unbilled	**1,802,640**	2,136,776
Notes receivable	**3,063**	5,469
Impairment	**–**	–
	2,578,045	2,655,519

Trade receivables are non-interest-bearing and are generally on terms of 30 to 360 days.

Unbilled trade receivables are sales made by the PRC subsidiaries of the Company, but the related value added tax invoices were not yet issued.

The Group does not have any collateral or other credit enhancements over its trade receivable balances.

An aging analysis of billed trade receivables at the end of the reporting period, based on the invoice date, is as follows:

	June 30, 2016 *RMB'000* **(Unaudited)**	December 31, 2015 *RMB'000* (Audited)
Within 1 month	**113,830**	64,420
1 to 3 months	**102,249**	120,801
3 to 6 months	**111,202**	59,807
6 to 12 months	**205,356**	139,293
Over 12 months	**239,705**	128,953
	772,342	513,274

The aging analysis of the billed trade receivables that are not individually nor collectively considered to be impaired is as follows:

	June 30, 2016 *RMB'000* **(Unaudited)**	December 31, 2015 *RMB'000* (Audited)
Neither past due nor impaired	**365,329**	274,602
Past due but not impaired		
Less than 1 month past due	**1,948**	44,396
Over 1 month but within 3 months past due	**1,780**	48,520
Over 3 months past due	**403,285**	145,756
	772,342	513,274

Receivables that were neither past due nor impaired relate to a certain number of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and these balances are still considered fully recoverable.

As at June 30, 2016, certain trade receivables with an aggregate amount of RMB212,589,000 (December 31, 2015: RMB396,396,000) have been pledged to secure the Group's interest-bearing bank loans (note 14).

At the end of the reporting period, trade receivables of the Group denominated in US$ amounted to RMB475,320,000 (December 31, 2015: RMB396,396,000).

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	June 30, 2016 *RMB'000* **(Unaudited)**	December 31, 2015 *RMB'000* (Audited)
Prepayments for purchase of raw materials	**281,359**	367,524
Prepaid land lease payments to be amortised within one year	**619**	619
Input value-added tax	**15,416**	15,368
Deposits and other receivables	**31,289**	17,128
	328,683	400,639

None of the above assets is either past due or impaired. The financial assets included in the above relate to receivables for which there was no recent history of default.

11. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

	June 30, 2016 *RMB'000* **(Unaudited)**	December 31, 2015 *RMB'000* (Audited)
Cash and bank balances	**642,680**	566,991
Time deposits with original maturity of less than 3 months	**147,818**	147,724
Time deposits with original maturity of over 3 months	**53,498**	144,994
	843,996	859,709
Less: pledged bank balances for:		
— Issuance of notes payable	**(307,452)**	(260,148)
— Credit cards	**(102)**	(188)
— Interest-bearing bank loans *(note 14)*	**(150,178)**	(230,631)
	(457,732)	(490,967)
Less: non-pledged time deposits with original maturity over 3 months	**(53,498)**	(4,520)
Cash and cash equivalents	**332,766**	364,222

Cash and cash equivalents are deposited with creditworthy banks with no recent history of default.

12. TRADE AND NOTES PAYABLES

	June 30, 2016 *RMB'000* **(Unaudited)**	December 31, 2015 *RMB'000* (Audited)
Trade payables	**102,160**	56,555
Notes payable	**614,400**	522,943
	716,560	579,498
Unbilled payables	**70,286**	203,421
	786,846	782,919

An aging analysis of the trade payables and notes payable at the end of the reporting period, based on the respective invoice date and issue date, is as follows:

	June 30, 2016 *RMB'000* **(Unaudited)**	December 31, 2015 *RMB'000* (Audited)
Within 3 months	**400,625**	348,118
3 months to 6 months	**277,094**	191,235
6 months to 1 year	**12,666**	19,374
Over 1 year	**26,175**	20,771
	716,560	579,498

Notes payable are interest-free with terms of maturity of within 180 days. As at June 30, 2016, notes payable were secured by the pledge of cash at banks of RMB307,452,000 (December 31, 2015: RMB260,148,000) (note 11).

13. OTHER PAYABLES AND ACCRUALS

	June 30, 2016 *RMB'000* **(Unaudited)**	December 31, 2015 *RMB'000* (Audited)
Payables related to:		
Taxes and surcharges	**428,341**	506,272
Payroll and welfare	**15,403**	13,875
Construction of property, plant and equipment	**324,193**	354,514
Professional fees	**1,998**	1,982
Others	**23,234**	14,859
	793,169	891,502
Accruals	**10,926**	7,717
Receipts in advance from customers	**147,479**	37,652
	951,574	936,871

Other payables are non-interest-bearing and have average payment terms within one year.

14. INTEREST-BEARING BANK LOANS

	Notes	**June 30, 2016** *RMB'000* **(Unaudited)**	December 31, 2015 *RMB'000* (Audited)
Bank loans — secured	*(a)*	**519,980**	802,848
Bank loans — unsecured	*(b)*	**445,961**	414,777
		965,941	1,217,625
Bank loans repayable:			
Within one year		**950,256**	956,342
In the second year		**1,311**	247,823
In the third to fifth years, inclusive		**14,186**	12,887
Beyond five years		**188**	573
		965,941	1,217,625
Less: Amounts not repayable within one year from the end of the reporting period but contain a repayment on demand clause		**(325,526)**	(194,721)
Amounts due within one year		**(624,730)**	(761,621)
Amounts shown under current liabilities		**(950,256)**	(956,342)
Amounts shown under non-current liabilities		**15,685**	261,283

	June 30, 2016 *RMB'000* **(Unaudited)**	December 31, 2015 *RMB'000* (Audited)
The borrowings comprise:		
Fixed borrowings	**55,818**	19,652
Variable-rate borrowings	**910,123**	1,197,973
	965,941	1,217,625

The effective interest rates per annum at the respective reporting dates, are as follows:

	June 30, 2016 *RMB'000* **(Unaudited)**	December 31, 2015 *RMB'000* (Audited)
Fixed borrowings	**3.10%–6.46%**	4.03%–6.31%
Variable-rate borrowings	**2.15%–4.25%**	1.80%–7.38%

(a) As at June 30, 2016 , included in secured bank loans was a bank loan of RMB1,616,000 (December 31, 2015: RMB1,776,000) which is denominated in HK$, bears interest at 3.10% below the Hong Kong dollar prime rate per annum and is repayable by 120 monthly equal installments commencing on March 3, 2013.

As at June 30, 2016, bank borrowings of approximately RMB214,383,000 (December 31, 2015: RMB303,713,000) were mortgaged and secured by certain property, plant and equipment and prepaid land lease payments of the Group. Bank borrowings of approximately RMB106,294,000 (December 31, 2015: RMB207,702,000) were secured by certain trade receivables of the Group. Bank borrowings of approximately RMB199,302,000 (December 31, 2015: RMB291,433,000) were secured by certain bank balances and time deposits of the Group.

The bank loans were secured by:

	June 30, 2016 *RMB'000* **(Unaudited)**	December 31, 2015 *RMB'000* (Audited)
Secured by — net book amount of:		
Property, plant and equipment	**189,608**	253,290
Prepaid land lease payments	**17,757**	24,210
Trade receivables	**212,589**	396,396
Bank balances and time deposits	**150,178**	230,631

(b) As at June 30, 2016, included in unsecured bank loans was an amount of RMB326,727,000 (December 31, 2015: RMB345,225,000) which is denominated in US$, bears interest at 3.00% to 4.25% above the prevailing London Interbank Offered Rate ("LIBOR") per annum, is repayable within three years by instalments and guaranteed by certain subsidiaries of the Company or the Company.

(c) The amount due are based on scheduled repayment dates set out in the loan agreements.

(d) The interest rate of variable-rate bank borrowings of the Group was varied according to the loan interest published by the People's Bank of China or LIBOR or Hong Kong dollar prime rate or Canadian dollar ("CAD") prime rate.

(e) The above borrowings at June 30, 2016 will be repayable from July 2016 to February 2023.

At the end of the reporting period, bank loans were denominated in the following currencies:

	June 30, 2016 *RMB'000* **(Unaudited)**	December 31, 2015 *RMB'000* (Audited)
US$	**632,323**	844,360
RMB	**317,135**	357,452
HK$	**1,616**	1,776
CAD	**14,867**	14,037
	965,941	1,217,625

The Directors have assessed that the fair values of the long-term interest-bearing bank loans approximate to their carrying amounts based on the prevailing borrowing rates available for loans with similar terms and maturities during the reporting period. The fair value measurement hierarchy of the bank loans requires significant observable input (Level 2).

15. CONVERTIBLE BONDS

On April 29, 2016, the Company issued convertible bonds with an aggregate principal amount of HK$166,905,800 which bear an interest rate of 6% per annum ("Convertible Bonds"). The Convertible Bonds entitle the holder to convert them into ordinary shares at a conversion price of HK$0.467 per ordinary share, subject to adjustments in accordance with the instrument constituting the Convertible Bonds, at any time from April 29, 2016 to the second anniversary of the date of the issue of the Convertible Bonds, i.e. April 29, 2018 (the "Maturity Date").

Conversion may occur at any time commencing from the expiry of the sixth month from April 29, 2016 and up to the Maturity Date.

The convertible bonds contain two components: liability and equity components. The equity element is presented in equity heading "equity component of Convertible Bonds". The effective interest rate of the liability component on the initial recognition was 10.15% per annum.

	RMB'000
Proceeds of issue, net	137,240
Liability component at date of issue	(129,268)
Equity component (Unaudited)	**7,972**
Liability component at date of issue	129,268
Interest charged	2,244
Interest payable/paid	(1,431)
Exchange realignment	2,950
Liability component as at 30 June 2016 (Unaudited)	**133,031**

16. ISSUED CAPITAL

	June 30, 2016 *RMB'000* (Unaudited)	December 31, 2015 *RMB'000* (Audited)
Authorised:		
10,000,000,000 (December 31, 2015: 10,000,000,000) ordinary shares of US$0.001 each	**64,716**	64,716
Issued and fully paid:		
2,144,491,200 (December 31, 2015: 2,144,491,200) ordinary share of US$0.001 each	**13,599**	13,599

17. DIVIDENDS

During its meeting held on August 29, 2016, the Board has resolved not to declare the payment of any interim dividend to the shareholders of the Company (the "Shareholders") for the Period (six months ended June 30, 2015: Nil).

18. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in this financial information, the Group had the following transactions with a related party for the Period:

On February 1, 2014 and April 1, 2015, the Group entered into two tenancy agreements with Steel Magnolia Investment Ltd. ("Steel Magnolia"), a company controlled by Mr. Zhao Bing's wife, Ms. Du Lixia. Mr. Zhao Bing is the chairman of the Board and an executive Director of the Company. Pursuant to the tenancy agreements, the Group leased from Steel Magnolia a building with a total floor area of 377.74 square metres for five years ending February 1, 2019 at a fixed monthly rental of approximately CAD4,358 (equivalent to approximately RMB21,423), and offices with a total floor area of 1,840 square metres for five years ending April 1, 2020 at a monthly rental of approximately CAD9,507 (equivalent to approximately RMB46,734). During the Period, the rental paid by the Group to Steel Magnolia amounted to RMB409,000 (six months ended June 30, 2015: RMB271,000). The Directors considered that the rental expenses charged under the tenancy agreements were based on the market rate for similar premises in nearby locations.

(b) Compensation of the key management personnel of the Group:

	For the six months ended June 30,	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Basic salaries and other benefits	**3,705**	3,924
Equity-settled share option expense	**6,744**	2,892
Pension scheme contributions	**37**	111
	10,486	6,927

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

For the Period, the Group's revenue decreased by 12.5% to RMB774,938,000 as compared to that of the Last Corresponding Period.

Profit before tax decreased by 42.0% to RMB106,531,000 for the Period from RMB183,634,000 for the Last Corresponding Period and profit for the Period decreased by 45.5% to RMB80,879,000, mainly due to the declines in revenue and gross profit margin, increase in interest expense from new bank loans and increase in expense from share options.

Net cash flows generated from operating activities increased by 173.6% to RMB250,038,000 as compared to RMB91,380,000 of the Last Corresponding Period.

Basic and diluted earnings per share for the Period based on weighted average number of ordinary shares of 2,144,491,000 and 2,501,891,000 in issue decreased by 45.7% and 52.2% to RMB3.8 cents and RMB3.3 cents, respectively.

Revenue by Product Category

Revenue by product category during the Period and the Last Corresponding Period are set forth below:

	Six months ended June 30,		
	2016	2015	Change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
Fiber optic patch cords	**298,227**	614,896	(51.5%)
Connection and distribution products	**337,761**	229,979	46.9%
Equipment room accessories	**138,950**	40,503	243.1%
	774,938	885,378	(12.5%)

Sales of fiber optic patch cords for the Period decreased by 51.5% to RMB298,227,000. Sales of connection and distribution products increased 46.9% to RMB337,761,000, while sales of equipment room accessories went up 243.1% to RMB138,950,000.

The decline in total revenue was primarily connected to the shift of the Group's strategic direction during the Period to solidify long term growth prospect and sustainability by focusing on strengthening operating cash flow rather than profit growth. In particular, the Group had underweighted doing business with customers who traditionally demand for a longer credit period in order to improve cash flows generated from operating activities. A substantial portion of domestic sales made during the Period were to customers with a credit period of 6 months.

Domestic and Overseas Sales

During the Period, sales of fiber optic patch cords to domestic and overseas customers accounted for 71.3% and 28.7%, respectively as compared to 83.5% and 16.5% of the Last Corresponding Period.

The following table shows the breakdown of sales of fiber optic patch cords to domestic and overseas markets:

	Six months ended June 30,		
	2016	2015	Change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
Domestic sales — fiber optic patch cords	**212,538**	513,507	(58.6%)
Domestic sales — other products	**476,710**	270,482	76.2%
	689,248	783,989	(12.1%)
Overseas sales — fiber optic patch cords:			
— New Zealand	**41,750**	41,469	0.7%
— Australia	**16,258**	28,668	(43.3%)
— UK	**27,653**	31,252	(11.5%)
— Others	**29**	–	New
	85,690	101,389	(15.5%)
Total sales:	**774,938**	885,378	(12.5%)

The decrease in overseas sales was in line with the priority of the Group to tighten credit control and generate positive operating cash flows for the Period.

Gross Profit Margin

For the first six months of 2016, overall gross profit margin of the Group was 25.1%, as compared to 30.1% for the Last Corresponding Period. The decrease in overall gross profit margin was mainly due to the change in product sales mix to more connection and distribution products which have lower gross profit margins, and decline in gross profit margin of domestic sales of fiber optic patch cord.

Other Income

During the Period, other income decreased by 4.8% to RMB13,675,000 as compared to the Last Corresponding Period.

Selling and Distribution Expenses

Selling and distribution expenses primarily consisted of transportation fees in connection with our sales, salaries of sales personnel, promotion expenses and other expenses relating to our selling and distribution activities.

During the Period, selling and distribution expenses of the Group decreased by 60.5% to RMB5,161,000 as compared to the Last Corresponding Period, primarily due to the decline in promotion expense.

Selling and distribution expenses were 0.7% and 1.5% of the revenue for the six months ended June 30, 2016 and 2015, respectively.

Administrative Expenses

Administrative expenses primarily consisted of wages and salaries paid to management and administrative personnel, professional fees, research and development costs, and depreciation of property, plant and equipment not related to production, and share option expense.

For the first six months of 2016, administrative expenses went up RMB3,963,000 or by 6.4% as compared to the Last Corresponding Period, primarily due to increases in depreciation of property, plant and equipment not related to production and share option expense.

Depreciation of property, plant and equipment not related to production increased to RMB12,374,000 for the Period from RMB7,854,000 for the Last Corresponding Period.

Share option expense was RMB11,611,000 and RMB2,911,000 for the six months ended June 30, 2016 and 2015, respectively.

For the first half of 2016 and 2015, administrative expenses accounted for 8.5% and 7.0% of total revenue respectively.

Finance Costs

Finance costs mostly consisted of interest expense relating to the Group’s bank loans. For the Period and the Last Corresponding Period, finance costs accounted for 3.8% and 2.4% of total revenue respectively.

Finance costs increased 41.0% to RMB29,784,000 as compared to the Last Corresponding Period as the new bank loans borrowed around the middle of 2015 resulted in a higher bank loan average balance for the Period as compared to the Last Corresponding Period, leading to increase in relevant interest expenses.

The effective interest rates of our bank loans during the Period ranged from 2.2% to 6.4%, as compared to 2.0% to 7.3% of the Last Corresponding Period.

Income Tax Expenses

Income tax expenses decreased 27.4% to RMB25,652,000 during the Period as compared to the Last Corresponding Period. The decrease was in line with the decrease in gross profit during the Period. The effective tax rate changed from 19.2% to 24.1% as compared to the Last Corresponding Period mainly because the Group incurred more non-tax deductible expenses such as interest expense of Hong Kong bank loans and share option expense of the Company.

Please refer to Note 6 to the Condensed Consolidated Interim Financial Statement for further details on income tax rates.

Earnings per Share

Basic and diluted earnings per share for the Period was calculated based on weighted average number of ordinary shares of 2,144,491,200 and 2,501,891,000 respectively in issue, which were RMB3.8 cents and RMB3.3 cents as compared to RMB7.0 cents (restated) and RMB6.9 (restated) cents respectively based on weighted average number of ordinary shares of 2,118,087,000 and 2,147,252,000 over the Last Corresponding Period of last year.

Interim Dividend

The Board has resolved not to declare interim dividend for the Period (2015: Nil).

Capital Structure

During the Period, the Group financed its growth in business primarily by cash inflow from operations, utilizing bank borrowings, and issuance of convertible bonds. Interest-bearing bank loans decreased from RMB1,217,625,000 as at December 31, 2015 to RMB965,941,000 as at June 30, 2016, which included RMB borrowings of RMB317,135,000, US Dollars borrowings of RMB632,323,000 and other foreign currency borrowings of RMB16,483,000 respectively.

Convertible bonds

On April 29, 2016 the Company issued convertible bonds pursuant to a subscription agreement and a supplementary agreement with China Guorong Assets Management Limited ("China Guorong"), in an aggregate principal amount of HK$166,905,800 (the "Convertible Bonds"). The Convertible Bonds bear an interest rate of 6.0% per annum payable on the date falling on the second anniversary of the date of the issue of the Convertible Bonds (the "Maturity Date") or on the date of redemption thereof, whichever is the earlier. The Convertible Bonds may after the first six months of its issuance and prior to the Maturity Date be converted into 357,400,000 conversion shares (subject to the adjustments) based on the initial conversion price of HK$0.467 each upon full conversation.

Please refer to Note 15 to the Condensed Consolidated Interim Financial Statement for further details.

Gearing Ratio

The Group monitors its leverage using a gearing ratio, which is net debt divided by equity plus net debt.

Net debt includes interest-bearing bank loans, trade and notes payables, other payables and accruals and tax payable less cash and cash equivalents and pledged bank balances.

The Group's policy is to keep the gearing ratio at a reasonable level.

The Group's gearing ratios as of June 30, 2016 and December 31, 2015 were 41.1% and 42.1%, respectively.

Liquidity and Financial Resources

As at June 30, 2016, cash and bank deposits, time deposits, and pledged bank balances, in total amounted to RMB843,996,000 which comprised RMB759,600,000, and others being equivalent to RMB68,932,000, RMB13,603,000 and RMB1,861,000 denominated in Hong Kong Dollars ("HK Dollars"), United States Dollars ("US Dollars") and Canadian Dollars ("CAD") respectively.

During the Period, the Group financed its operations through cash generated from operating activities, utilizing bank borrowings and issuance of convertible bonds.

Current assets net of current liabilities was RMB948,744,000 as at June 30, 2016. The Group had RMB223,583,000 of long term liabilities consisted mainly of convertible bonds.

In the future, we expect to use funds from a combination of sources to fund our operation and expansion plan, including debt, share capital and internally generated cash flow.

Taking into account these financial resources available to us, the directors of the Company (the "Directors") are of the opinion that we have sufficient working capital to meet our requirement for future development.

Cash Flow Analysis

The following table sets forth selected cash flow data derived from our consolidated statement of cash flows for the periods indicated.

	For the six months ended June 30,	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash flows from operating activities	**250,038**	91,380
Net cash flows used in investing activities	**(188,574)**	(124,221)
Net cash flows (used in)/from financing activities	**(123,718)**	337,907
Net (decrease)/increase in cash and cash equivalents	**(62,254)**	305,066

Net cash flows from operating activities for the first six months of 2016 was primarily generated from profit before tax of RMB106,531,000, the decrease of RMB87,931,000 in trade and notes receivables and the decrease of RMB71,435,000 in prepayments, deposits and other receivables.

Net cash flows used in investing activities for the first six months of 2016 was primarily related to purchases of items of property, plant and equipment of RMB174,117,000.

Net cash inflows from financing activities for the first six months of 2016 was primarily used in repayment of bank loans of RMB392,195,000, offset by the increase of RMB119,235,000 in new bank loans and issuance of convertible bonds of RMB137,240,000 .

Trade And Notes Receivables

Billed trade receivables included billed trade receivables from domestic sales made for which value added tax invoices have been issued to domestic customers and overseas sales made for which commercial invoices have been issued to overseas customers. Unbilled trade receivables were related to domestic sales made for which value added tax invoices have not been issued to domestic customers.

Billed trade receivables, unbilled trade receivables and notes receivables balances in total decreased by 2.9% to RMB2,578,045,000 as at June 30, 2016.

As of August 22, 2016, a total of RMB387,777,000 had been collected from customers since July 1, 2016.

There were no bad debt provisions made on trade receivables for the Period and for the year ended December 31, 2015.

Inventories

Inventories as at June 30, 2016 increased 112.4% to RMB159,024,000 as compared to RMB74,879,000 as at December 31, 2015.

The increase of inventories was primarily attributable to the increases of raw materials and finished goods. A substantial portion of these raw materials were turned into finished goods and sold to the customers as of the date of this announcement.

Trade and Notes Payables

Trade and notes payables as at June 30, 2016 amounted to RMB786,846,000 as compared to RMB782,919,000 as at December 31, 2015.

Indebtedness

As at June 30, 2016, our indebtedness included banking loans of RMB965,941,000, obligations under finance leases of RMB53,494,000 and convertible bonds of RMB133,031,000 as compared to RMB1,217,625,000, RMB45,139,000 and Nil as at December 31, 2015, respectively.

The effective interest rates of our bank loans per annum were 2.2% to 6.4% and 2.0% to 7.3% as at June 30, 2016 and December 31, 2015, respectively.

Please refer to Notes 14 and 15 to the Condensed Consolidated Interim Financial Statement for more details of our bank loans and convertible bonds, respectively.

Other Payables and Accruals

As at June 30, 2016, other payables and accruals consisted primarily of taxes payable other than income tax, payables for construction in progress related to establishing and upgrading the production and non-production facilities. The balance of other payables and accruals was maintained at a similar level when compared with that as at December 31, 2015.

Contingent Liabilities

The Group did not have any contingent liabilities as at June 30, 2016.

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

Save as otherwise disclosed, there were no significant investments held, material acquisitions, or disposals of subsidiaries during the Period under review. And save as those disclosed in this announcement, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this announcement.

Charges on Assets

As of June 30, 2016, the Group had pledged RMB611,154,000 (December 31, 2015: RMB946,506,000) of its assets in order to secure banking facilities or bank loans, which were used to finance daily business operation, and RMB307,554,000 (December 31, 2015: RMB260,336,000) of the Group's bank balances for issuance of notes payable, letters of guarantee and letters of credit.

Exposure to Fluctuations in Exchange Rates

Substantially, all of the Group's business transactions and liabilities are denominated in RMB, US Dollars, CAD and HK Dollars. The Group adopts a conservative financial policy and most of its bank deposits are in RMB, US Dollars, CAD and HK Dollars.

As at June 30, 2016, the Group had US Dollars bank borrowings of RMB632,323,000 and outstanding balance of HK Dollars denominated Convertible Bonds of RMB133,031,000 and the related exchange risk could be mitigated from the collection of trade receivables in US Dollars from overseas customers and the bank deposits in US dollars and HK Dollars. The Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group is not exposed to material interest and exchange risks.

Related Party Transactions

Save as disclosed in Note 18 to the Condensed Consolidated Interim Financial Statement, the Group had not entered into any other related party transactions for each of the six months periods ended June 30, 2016 and 2015.

Off-Statement of Financial Position Arrangements

As at June 30, 2016, the Group did not have any off-statement of financial position arrangements.

Continuing Disclosure Requirements under Rule 13.21 of Chapter 13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")

The Company and/or its subsidiary is a party to certain bank facilities that include conditions imposing specific performance obligations (the "Specific Performance Obligations") on the controlling shareholder(s) of the Company and breach of any of the Specific Performance Obligations will cause a default in respect of the facilities. Disclosure pursuant to Rules 13.18 and 13.21 of the Listing Rules in respect of the relevant loans is made as follows:

Loan 1

On November 7, 2013, a wholly-owned subsidiary of the Company entered into a facility agreement with China CITIC Bank International Limited in respect of a term loan facility in the principal amount of US$20,000,000 for a term of 36 months after the date of the facility agreement.

The Specific Performance Obligations are:

(i) Kemy Holding Inc. ("Kemy") shall continue beneficially own at least 30% of the issued Shares;

(ii) Mr. Zhao Bing ("Mr. Zhao") shall remain legally and beneficially owning at least 75% of the issued shares of Kemy; and

(iii) Mr. Zhao will remain as management over the Company.

Loan 2

On June 1, 2015, the Company entered into a facility agreement with Bank of China (Hong Kong) Limited in respect of a 3-year term loan facility in an aggregate principal amount up to US$30,000,000 commencing on the date of drawdown of the facility.

The Specific Performance Obligations are:

(i) Kemy shall maintain directly or indirectly not less than 30% of the Shares;

(ii) Mr. Zhao shall maintain directly or indirectly not less than 75% of issued shares of Kemy; and

(iii) Mr. Zhao will remain as the chairman of the Board.

Loan 3

On July 24, 2015, the Company entered into a facility agreement with The Hongkong and Shanghai Banking Corporation Limited in respect of a 3-year term loan facility in an aggregate principal amount up to US$40,000,000 or equivalent to RMB250,000,000 for a committed period of 18 months after the first drawdown date of the facility.

The Specific Performance Obligations are:

(i) Mr. Zhao will continue to maintain, directly or indirectly, not less than 30% beneficial interest in the Shares; and

(ii) Mr. Zhao will remain as the chairman of the Board.

Employees and Staff Costs

As at June 30, 2016, the Group had 557 employees (December 31, 2015: 734 employees). Employees costs, including the emoluments of the Directors amounted to HK$18,693,000 for the Period (2015: HK$26,813,000).

Remuneration is determined and reviewed based on fair principles by reference to the market conditions and individual performance.

The Group also provides other benefits to its employees, including medical insurance and retirement benefits. The Group's employees in Hong Kong are also enrolled in the mandatory provident fund scheme. The Group also operates share option schemes to reward employees for their contributions to the Group.

Outlook

During the Period, the Group continued to implement vertical integration strategy with the continuous development of high-end optical interconnect products and Fiber-To-The Home broadband internet business apart from the production of our traditional products. Shanghai Net Miles Fiber Optics Technology Co., Ltd., a subsidiary of the Company, has been making good progress on our new products for data centers. It is expected that, its 100G QSFP 28 and 25G SFP+ modules will be introduced to the market in due course.

Toward the end of 2015, the Group signed a cooperative agreement with China Telecom to engage in Fiber-To-The-Home broadband internet business. The first batch of Fiber-To-The-Home access ports was completed, and the Group is now negotiating on the scale and the commencement date of the second batch project.

In addition, riding on the PRC government's policy in respect of fostering big data development and leveraging on the opportunity that Beijing, Tianjin and Hebei will join hands to build a big data comprehensive experimental zone, the Company is making preparation on constructing a data center in Shijiazhuang, Hebei Province, so as to capture the rapid development of "Big Data". The decision to build our first data center in Shijiazhuang is also due to its proximity to the country's capital Beijing and Tianjin municipality to be part of the Bohai Economic Rim and gain political and economic advantages. This data center will contribute to the demands for fiber optic patch cords, equipment room accessories and optical inter-connect products of the Group, and also create synergy with the Group's advantage of its familiarity with local operating environment.

A key priority for the Group in 2016 is to improve operating cash flow. Hence, the Group had made substantial portion of its sales during the Period to customers with shorter payment terms and succeeded in registering a substantial increase in net cash flow generated from operating activities while trade receivables balance has also started to decline. The Group will continue to optimize customer mix of its manufacturing business to enhance operating cash flow, and grasp opportunities from Broadband China, "Internet+" and big data development through appropriate allocation of internal resources.

Audit Committee

The audit committee of the Company (the "Audit Committee") comprises three members, namely Dr. Ma Kwai Yuen (Chairman), Mr. Shi Cuiming and Dr. Lui Pan, all being the independent non-executive Directors (the "INEDs"). The Audit Committee has reviewed the Company's unaudited consolidated interim results with the management and the Company's independent auditors, the interim report as well as the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including the review of the unaudited interim condensed financial information for the Period.

Compliance with Corporate Governance Code

During the Period, the Company was in compliance with the principles and code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Company focuses on maintaining a high standard of corporate governance in order to achieve sustainable development and enhance corporate performance especially in the areas of internal control, fair disclosure and accountability to all Shareholders. The Company's compliance with the code provisions and recommended best practices of the CG Code are set out in the Corporate Governance Report of its 2015 annual report.

Compliance with the Model Code For Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to govern securities transactions by the Directors. Specific enquiries have been made by the Company with all Directors, and each of them has confirmed his compliance with the Model Code in connection with the Company's securities transactions during the Period.

Purchase, Sale or Redemption of Securities

During the Period, the Company did not redeem any of its Shares listed on the Main Board of the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such Shares.

Confirmation of Non-Competition Undertaking from Controlling Shareholders

The Company's controlling shareholders, Kemy, Mr. Zhao (an Executive Director and the Chairman of the Board) and Ms. Shi Shuran (collectively the "Covenantors", as defined in the Non-competition Deed) entered into the Non-competition Deed (the "Deed", please refer to the Prospectus for details) with the Company on June 13, 2011. Each of the Covenantors confirmed that as at June 30, 2016, they and their respective associates did not have any interest in any business apart from the business of the Group which competed or was likely to compete, either directly or indirectly, with the Group's business and which required disclosure pursuant to Rule 8.10 of the Listing Rules.

Publication of Interim Results and Interim Report

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.chinafiberoptic.com. The 2016 Interim Report will be available on the respective websites of the Stock Exchange and the Company, and despatched to the Shareholders in mid September 2016.

By Order of the Board
China Fiber Optic Network System Group Ltd.
Zhao Bing
Chairman and Executive Director

Hong Kong, August 29, 2016

As at the date of this announcement, the executive directors of the Company are Mr. Zhao Bing (Chairman), Mr. Meng Yuxiao, Mr. Deng Xuejun, Mr. Hung, Randy King Kuen and Mr. Xia Ni; and the INEDs are Mr. Shi Cuiming, Dr. Ma Kwai Yuen, Dr. Lui Pan, Dr. Xu Wanqiang and Prof. Jiang Desheng.